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The CEMA-EC Relationship: East and West Europe. Frus. Sov. Designs

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# Research Study

***THE CEMA-EC RELATIONSHIP:***  
***The East and West Europeans***  
***Frustrate Soviet Designs***

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THE CEMA-EC RELATIONSHIP: THE EAST AND WEST  
EUROPEANS FRUSTRATE SOVIET DESIGNS

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# THE CEMA-EC RELATIONSHIP: THE EAST AND WEST EUROPEANS FRUSTRATE SOVIET DESIGNS

## FOREWORD

In early February the first formal meeting between CEMA\* and the EC\*\* took place in Moscow. Although long in the making, this meeting accomplished very little, primarily because the CEMA side was unwilling to discuss substantive issues. In consequence, the East Bloc is not appreciably closer than before to defining its intentions toward the Community and toward the establishment of a new framework for the conduct of East-West economic relations.

Although the development of new links between Europe's two major economic groupings might appear to be inevitable in the present context of East-West relations, what form and scope such contacts should take raises complex political and economic issues. Major differences on these issues have emerged between the USSR and the East European states, which have in turn had a significant influence on West European policies. This paper examines the nature of these issues and discusses the factors working, for and against, a closer CEMA-EC relationship in the future.

The paper has a different focus but is complementary to the recently issued OPR Study, "The Prospects for European Unity: The View from Moscow" (OPR-105, December 1974, SECRET/NFD/NDA/CD) which concentrates on the perceptions of the various institutional and individual contributors to Soviet policy regarding the European Community.

\*CEMA (The Council for Economic Mutual Assistance) was established in 1949 as a regional economic organization of the USSR and most of the East European states—Albania, Bulgaria, Czechoslovakia, Hungary, Poland, and Romania. Albania dropped out in the early 1950's, and East Germany, Mongolia and Cuba became members in 1950, 1962, and 1972 respectively. For purposes of this paper Mongolia and Cuba can be ignored.

\*\*Although the initials EEC, standing for European Economic Community, are still commonly used and are technically correct when referring to the early years of the organization, the Community now prefers to drop the word Economic from its title in recognition of its broadened functions and aspirations. For the sake of consistency, the initials EC will be used throughout this paper.

## SUMMARY AND CONCLUSIONS

CEMA has exercised little authority over the external economic relations of its members and has had few outside contacts. Only in recent years has CEMA, under Soviet instigation, turned its attention toward the question of its relations with the EC. Moscow's interest in this question had two sources: (1) recognition that the Community had become an important cog in European economics and politics, and (2) its concern to insure Bloc cohesion as it pursued detente and the expansion of East-West economic relations. Moscow, therefore, sought ways both to come to grips with the EC reality itself and to control the East Europeans' relations with it. The Soviets came to see the establishment of relations between CEMA and the EC as a partial answer to both requirements, and brought growing pressure on the East Europeans to agree to coordination of Bloc economic policy toward the West and to increase CEMA's external role and authority.

By 1972 the Soviets had decided to move toward establishing a direct CEMA-EC link, and Brezhnev called for the establishment of "businesslike" relations between the two organizations. But when it came to the question of what form contacts between CEMA and the EC should take, Soviet-East European differences soon emerged. Four East European countries in particular—Hungary, Poland, Romania, and East Germany—have subsequently resisted the establishment of a CEMA-EC link which would restrict their ability to develop relations with the Community bilaterally. They have come to accept CEMA as a point of contact with the Community through which their collective voice might be used to help facilitate the development of bilateral economic relations and to minimize any adverse impact of commercial policies introduced by the Community as a whole. But the idea of granting CEMA any permanent, formal increase in authority and allowing it a direct, ongoing role in the conduct of East-West economic relations has remained anathema. The East Europeans not only have resisted a strengthening of CEMA's authority within Bloc councils but have made known to EC members their fears concerning the threat to their sovereignty posed by the development of CEMA-EC relations.

As Soviet-East European differences over CEMA's external role emerged and sharpened, the EC and its members became increasingly sympathetic to East European concerns over the form and scope of future CEMA-EC ties. The Community has, as a result, sought to develop contacts in spheres which would minimize East European vulnerability to Soviet pressures for strengthening CEMA. At the same time, however, it has attempted to force the East Bloc to acknowledge the authority of the EC Commission to conduct negotiations with CEMA and to introduce common policies for the Community's members in the commercial sphere.

These divergences within CEMA and between CEMA and the EC have left discussions concerning the establishment of formal links at an impasse. Frustrated in their efforts to strengthen control over East-West relations through CEMA, the Soviets have proven unwilling to pursue the development of any substantive relationship between CEMA and the EC, while seeking to exploit the political and propaganda opportunities offered by contacts between the two organizations. Unless the Soviets reexamine their positions, continued stalemate appears likely and Soviet tactics will provide a severe test for the EC and its members of their commitment to a continuing dialogue, their ability to resist unilateral concessions, and, increasingly, their patience.

CEMA-EC relations will probably develop along more modest lines than some hoped, and others feared, a couple of years ago. Tacit collaboration between the Community and East Europeans in resisting Soviet designs will continue to provide a major barrier to significant progress on the question of a more authoritative external role for CEMA. A major intangible, however, is in what way the Soviets will exploit the considerably increased economic leverage vis a-vis Eastern Europe which they have achieved because of the energy crisis and their dominant energy position. Although this enhanced economic bargaining power could be used to help break East European resistance to increasing CEMA's authority, it also improves the prospects for coordinating Bloc economic policy behind the scenes even without a more direct role for CEMA.

For the Soviets, the situation has in fact changed markedly from that of 1972 when they first broached the idea of a CEMA-EC link. Their broader political objectives in Central Europe are now largely achieved, while the threat of rapid Community progress toward unity and the potential for increasing control over Eastern Europe through CEMA-EC contact have diminished. Moreover, to the extent that the Soviets continue to insist on a Bloc approach to East-West economic relations, in the absence of a more authoritative role for CEMA, the East European and EC states will both have greater incentive and opportunity to steer negotiations toward international forums, such as GATT, in which the roles of CEMA and the USSR can be minimized.

Underlying the present impasse is the great reluctance on the part of the Soviets to see the CEMA states drawn into the international economic system. This reluctance is based on their awareness of the opportunities such involvement would offer for subversion of Soviet control and the revival of reformist sentiment in Eastern Europe. Until the USSR becomes less rigid concerning the form of East-West European economic relations and the degree of its own control over them, neither the East or West Europeans are likely to acquiesce in the elaboration of significant CEMA-EC links.

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## THE DISCUSSION

## INTRODUCTION

CEMA has played a very limited role in its members' relations with the outside world. Established in 1949 as a counterweight to US and West European reconstruction efforts, notably the Marshall Plan, CEMA was activated in the latter half of the 1950's in response to the growing economic needs of its members for specialization and cooperation and to the West European movement toward integration. Despite the growing importance of trade between members of CEMA and the EC (See figure 1) and a modest expansion of CEMA's outside activities—primarily contacts with various UN-affiliated agencies—until the 1970's CEMA remained inward-oriented and had no direct contact with the Community.

There have been a number of reasons for the prolonged absence of relations between Europe's principal regional economic organizations. Foremost has been the USSR's hostility toward the Community, which has been based more on its perception of the political and military implications of EC integration than on its economic impact. Until recently, there was great reluctance to consider bolstering the EC's prestige by conceding it a role in East-West economic relations or by granting it any other form of recognition. Closely related to this have been the continuing inability of CEMA to speak for its members and the lack of pressure by the Community to force CEMA's members to recognize the authority of the EC Commission in the commercial sphere. Perhaps most

FIGURE 1  
IMPORTS OF THE CEMA COUNTRIES  
FROM THE EC STATES\*

	1958	1963	1968	1973
Percent of Total				
Imports .....	7.8	7.5	11.0	14.2
Billion US Dollars.....	0.8	1.3	2.7	8.0

\*The figures for 1958, 1963, and 1968 include only the trade of the original six EC members. The figures for 1973 include trade with the UK, Ireland, and Denmark which joined the EC in that year. All figures include the "interzonal" trade between East and West Germany.

intractable, however, has been the limitation imposed by the sharply differing economic systems of CEMA and the EC. The economic relations of the former are based on central planning, bilateralism and inconvertible currencies; those of the latter on market forces, multilateralism and convertible currencies; and these systemic differences sharply restrict the potential for effective CEMA-EC interaction and the scope of any relationship established between them.

By the early 1970's however, new Soviet approaches to Europe were emerging which would bring the question of CEMA-EC relations to the fore. The earlier policy toward the Community of confrontation was gradually being transformed into one of engagement, both because of developments within the Community and because of the economic needs of the CEMA states. At the same time, the old idea of a security conference was being revamped, with expanded East-West economic cooperation presented as a mainstay of the Soviet concept of detente, and the Soviets were increasing pressure on Eastern Europe for closer coordination of economic and political policy within the Bloc. With the progress of detente, including Western agreement to the holding of the Conference on Security and Cooperation in Europe (CSCE), the issues of how to relate to the EC, enhancement of CEMA's authority, and relations between these two organizations were to become inextricably involved with the broader questions of Soviet policy toward Europe and establishment of a new framework for the conduct of European political and economic relations.

## I. SETTING THE STAGE IN THE 1960's

The barriers to CEMA-EC relations did not weaken appreciably during the 1960's. The less strident Soviet verbal opposition to the Community was not accompanied by a shift in policy toward accommodation; the EC, by not insisting on the introduction of common policies toward the CEMA countries, did not force them to recognize the authority of its Com-

mission; and CEMA did not gain authority to represent its members. Despite widespread hopes in the West and among some circles within CEMA, various measures of economic reform in Eastern Europe and expanding East-West economic ties yielded little convergence in the trade and cooperation practices of CEMA and the Community. In fact, Community plans to turn commercial policy-making over to its Commission at the end of the decade served to heighten the contrast between CEMA and the EC. Developments in the 1960s were important, however, in shaping the more recent evolution of CEMA-EC relations.

#### A. Diverging Interests in CEMA

New forces were emerging within CEMA. As the Community demonstrated its economic viability, a clear divergence began to appear between Soviet and East European concerns. In general, the USSR focused on the political potential of the Community and was able to take a relatively relaxed view of the EC's progress in this respect, particularly given the strong French stand under DeGaulle against political integration. The East Europeans, however, who were much more concerned with complications for their own economic development, saw the progressive establishment of an EC customs union and joint agricultural policy as threats to their exports, and, hence to their hopes for aiding industrial modernization through closer economic ties with the West.

By the mid-1960's the East European states were increasingly inclined to come to terms with the Community. Many were attracted by the EC, not only as an economic partner, but also as an example of successful economic integration under which the release of decentralized market forces—rather than more centralized planning subject to big power domination—provided the dynamism. Most East Europeans came to voice more accommodating attitudes toward the Community, on occasion including expressions of admiration for its successes and of regret over the lack of a realistic Eastern policy toward it. Their immediate economic interests led some of them to negotiate informal "technical" agreements with the EC which established conditions under which certain of their important agricultural products have since been allowed access to Community markets.

#### B. Frustrating a Community Approach

Nevertheless, the CEMA countries continued to frustrate the development of a common EC policy toward them. The EC Commission was unable to pre-

vent the Community's first step toward a Common Commercial Policy (CCP)—the introduction of the "EC Clause" in member trade agreements with third countries in the early 1960's—from being undermined by the East's intransigence. This clause was intended to introduce the concept of the Community as a juridical entity in order to pave the way for the gradual assumption by the EC Commission of responsibility for negotiating Community-wide trade agreements under the CCP and to insure that bilateral agreements with inflexible time limits would not exacerbate the problems of forming a CCP. It was resisted by the East on the grounds that it constituted a form of forced recognition and put bilateral agreements at the mercy of internal Community developments. While eventually acquiescing to inclusion of the EC clause in trade agreements, the CEMA countries refused to recognize formally the EC's juridical status or to deal with the EC Commission.

The willingness of the Community to live with such an inconclusive compromise set the pattern for future relations. Subsequent Community efforts during the 1960's to develop common credit and energy policies toward the East achieved only limited success largely because of the divergent interests of EC members and their preference for dealing with the CEMA states bilaterally (particularly France and Germany), and also because of the continued refusal of the CEMA countries to deal with Community organs. Even in the agricultural sphere, where the East European states were most vulnerable to trade restrictions, the unofficial "technical" agreements served to mitigate the East Europeans' export problems on an *ad hoc* basis while leaving the nominal Community objectives of recognition and of formulation of a CCP unachieved.\*

A major reason for the perpetuation of this situation was the ability of the CEMA states to exploit the wide gap between the interests of the EC Commission and of the Community member-states. The Commission consistently pushed for the adoption of common policies in the interest of proceeding toward the EC's avowed objective of economic union. The members, generally wary of, or differing over the path to, economic union, and often failing to perceive significant economic advantages from common policies toward the East, tended to feel little sense of urgency.

\* East European acceptance of the Commission's role in GATT (where it speaks for its members and has handled East European membership negotiations) and Soviet and East European acceptance of Commission participation in international conferences on primary products could be construed as limited steps toward recognition. But as had been the case with the EC clause, formal recognition continued to be withheld.

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This was particularly true in the case of France, and it was in large part due to French and Soviet resistance that at the end of the transition period in 1969 the Commission failed to receive the mandate it sought (as provided in the Rome Treaty) to introduce a CCP toward the Communist states. Instead, the members of the Community elected to delay the nominal introduction of such a policy until January 1973 and its effective introduction (in view of the duration of existing agreements) until at least January 1975. This stay of Community demands obviated the need for any immediate accommodation to the EC on the part of the East and helped set the conditions and time frame for the subsequent development of Soviet policy towards the EC and CEMA.

## II. ENTER DETENTE

By the end of the 1960's it was clear that the lack of a co-ordinated economic policy toward the West and the absence of effective integration policies within CEMA were making it increasingly difficult for the Soviets to counteract the attractions for Eastern Europe of an integrating Western Europe.\* The need to maintain Bloc cohesion while developing an active policy toward the West provided a major impetus for Soviet reappraisal of its policies towards both the EC and CEMA in the aftermath of the invasion of Czechoslovakia. The indications were that the Soviets decided that Bloc policy toward the Community must be more assertive and collective than in the past; that closer cooperation within CEMA and expanded ties with the West must no longer be posed as alternatives, but must be made mutually reinforcing; and that in all of this CEMA should have an important role to play.

### A. Rethinking the Approach to the EC

Despite the success of efforts to delay the Community's introduction of a CCP toward state-trading countries, by the end of the 1960's signs of Soviet concern over the EC's continuing progress were growing. The causes included the Community's relatively successful completion of its transition to a customs union; the sharpening contrast between French and German economic power; DeGaulle's departure from the French and EC political scenes; the improving prospects for the addition of new members; the grow-

\*In addition to proposals emerging in the late 1960's in some East European countries—Hungary, Czechoslovakia, and Poland—for a radical, market-oriented, reform of CEMA institutions, severe political repercussions had been in part the result of this lack of effective policies. These included Romania's precipitous recognition of West Germany and the unilateral economic opening to the West advocated in Czechoslovakia during the Prague Spring.

ing attraction of the Community for European neutrals as well as for Eastern Europe; and the more forthcoming attitude toward the EC of some West European Communist Parties. There was particular unhappiness over the expanding political consultations among the EC members undertaken after 1969, and the Soviets—like Americans—were becoming more aware of the threat to their own plans for expanded economic relations with the West. The necessity for reexamining attitudes toward the EC was acknowledged in Brezhnev's remarks at the June 1969 International Communist Conference in which he observed that the "imperialists . . . are . . . resorting to various forms of economic integration. . . . We must not fail to take all this into account in our policy. . . ."<sup>1</sup>

By 1971, detente and the CEMA integration program (discussed below) had proceeded far enough for a new approach to the Community to begin to emerge. Soviet assessments of the EC began to grant West European economic integration a degree of legitimacy, coming to view it as the result of "objective" tendencies and to distinguish it more sharply from political and military integration. At the end of that year, immediately following the first meeting of EC foreign ministers to consider the role of the Commission in the CSCE, the communique of a Warsaw Pact foreign ministers conference indicated that the continued division of Europe into two economic groupings was not viewed as a barrier to a European conference or to detente.\*

With the rationale for a shift in approach to the EC being developed, it appeared to many observers that Soviet eagerness to get the CSCE under way meant that some move toward formal acceptance of the EC was imminent. In March 1972 Brezhnev made his widely-noted remarks at the 15th Soviet Trade Union Congress, in which he rejected the "absurd idea" that the Soviets were out to torpedo the EC and argued that the "Soviet Union is far from ignoring (the EC) and its evolution." Although his remarks aroused widespread expectations of new Communist initiatives, Brezhnev in fact called on EC members to take the first conciliatory steps when he went on to say: "Our relations with the participants in this grouping, naturally, will depend on the extent to which they, on their part, recognize . . . the interests of the member countries of the Council for Economic Mutual Assistance."

\*Without mentioning the EC or integration, the communique found that a European conference would lead to the "gradual transformation of the relations among European states, which will allow an overcoming of the division of the European continent into military-political groupings."<sup>2</sup>

In the event Brezhnev's forthright statement marked the culmination of a phase in the public reassessment of the EC, which apparently had been designed in large part to give new impetus to the flagging Soviet drive for the early holding of the CSCE and to influence the debate over ratification of the Soviet-FRG treaty in West Germany. As hopes for the former faded and for the latter were realized, Soviet attitudes toward the EC and both public and private interpretations of the import of Brezhnev's remarks became ambiguous and often contradictory. This turn of events argued that as yet the Soviets felt neither prepared nor compelled to move toward accommodation with the EC, and reinforced the impression, gained from the Soviet media, that differences or uncertainties over the EC's future continued.<sup>3</sup>

### B. Expanding CEMA's External Role

A major barrier to rapid breakthrough on the question of CEMA-EC relations was widespread resistance in Eastern Europe to the further strengthening of CEMA. The Soviet-led drive for socialist integration, which was officially launched with a "summit" meeting of party leaders in early 1969 and resulted in the adoption of the Complex Integration Program in mid-1971, was in part designed to help provide the economic and political cohesion that the Soviets felt to be essential for expanded ties with the West. Supranationalism, however, continued to be rejected by the bulk of the East European states. Most of them—Hungary, Poland, Romania, and East Germany—had resisted integration in the form of tighter Bloc-wide planning,\* and were also to resist an increase in CEMA's external authority. As a result, while CEMA appeared to offer potentially a ready instrument for coordinating and controlling economic contacts with the West, the enhancement of CEMA's external role would prove a slow and difficult process.

During the discussions over the Complex Program, there was little Soviet inclination to force the issue of CEMA's formal external authority. Formulation of the integration program had first priority, and a statutory or other overt strengthening of CEMA's authority could not easily have been reconciled with the sharp contrasts being drawn between CEMA and the Community in propaganda directed toward EC applicants

\*Some, notably Hungary and Poland, sought to substitute a market-oriented approach, while others fought supranationalism on principle (Romania) or attempted to define integration in ways which would preserve their own narrow political and economic advantages (East Germany). Only Bulgaria and Czechoslovakia generally came to give putative support to Soviet integration concepts.

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thinning would also have undermined the campaign for a European conference, in which all states would nominally participate as individuals. Accordingly, the initial moves toward broadening CEMA's external role were cautious and low-level, and during the early discussions of integration virtually nothing was decided concerning the role and powers of CEMA in external affairs.

CEMA's members agreed in the Integration Program to "coordinate their foreign economic policy" among themselves, in part to "eliminate discrimination" against them, but the form and scope of policy coordination were left obscure, and while alleged EC discrimination appeared a likely object of this coordination, Bloc commentaries refrained from making the connection. Nevertheless, Soviet interest in expanding CEMA's external role was quickly made apparent with CEMA taking on the role of ideological, political, and economic model for international relations. The buildup accorded CEMA by the Soviets appeared to qualify it as either a worthy partner or a counterweight to the EC in European affairs, and perhaps in international forums.

In practice, CEMA's external role developed along more subtle lines. Its involvement with UN organizations and UN-sponsored conferences steadily increased, and contacts have been sought with receptive regional organizations such as the Nordic Council, the Arab League, and the Andes Development Corporation. Not only countries with socialist systems or close Soviet ties—Cuba, Yugoslavia, Finland, Iraq, North Korea, and North Vietnam—have been courted, but also countries as diverse as Argentina, Iran, Mexico, Sweden, and Bangladesh. Of the countries with which ties have been developed, Finland is of particular interest, for in the process CEMA assumed considerable authority in the negotiating of an economic cooperation agreement.\* The USSR hailed this agreement as a reflection of the growing authority of CEMA.<sup>4</sup> Some Western observers viewed it as precedent and model for CEMA's links to the West, including the Community, and in comparing the agreement with the recent Finnish agreement with the EC, interpreted it as according CEMA a status approaching that of the Community. While exaggerating the economic significance of this

\*For the talks, initiated in 1971, CEMA's secretary Fadeyev (A Soviet and the holder of this position since 1958) was granted the right to negotiate on behalf of CEMA's members, and with their ratification of the agreement it became the first of its kind between CEMA and a Western country.

agreement, these claims served to bolster CEMA's image in the West.

A major expansion of CEMA's role in international finance was also undertaken. CEMA's banks claimed a rapidly expanding role in Western financial markets and a broadened network of correspondent banks.\* The growing presence of CEMA's banks in Western financial markets was paralleled by growth and proliferation of Soviet-owned banks in the West and by mounting convertible currency deficits in Eastern Europe. By financing these deficits through their own or CEMA's banks, the Soviets managed to gain a degree of control over Eastern Europe's expanding economic relations with the West. Moreover, during this same period the deterioration of Western financial and monetary conditions came to be seen as an opportunity to expand the role of CEMA's accounting unit, the transferable ruble, as another means of promoting a collective approach to outside economic relations.\*\*

As a result of this expanding external activity, by 1972 CEMA's Secretariat could point to a considerably broadened international role for the organization, claiming links with fourteen UN agencies, three regional organizations and at least eight specialized economic agencies.<sup>5</sup> Taken in conjunction with the commitment to foreign economic policy coordination contained in the integration program, this augmented external role provided CEMA and its Secretary with a degree of *de facto* authority which they had not yet been granted *de jure*.

\*In 1970 the International Investment Bank (IIB) was set up. Thirty percent of its capital contributions was pledged in convertible currency. It was authorized to establish relations with international financial organizations and commercial banks and to provide credit guarantees in order to attract Western credits for its members. Through its financing of multilateral investment projects with convertible ruble and convertible currency credits this new bank has served to coordinate and expand economic ties both within the CEMA area and with the West. In 1970 as well, CEMA's International Bank for Economic Cooperation (IBEC—founded in 1963) doubled its convertible currency capital (to some 73 million US dollars), and subsequently, in order to further increase their convertible currency capital, the two CEMA banks, with the help of the Soviet-owned Moscow Narodny Bank in London, raised a series of loans from Western banking consortia.

\*\*It was felt that the Western monetary crisis and especially the exchange rate uncertainties would make the ruble (the "most stable currency in the world") a more welcome settlement medium than capitalist currencies, especially among developing countries. Accordingly, the IBEC improved the terms on which transferable rubles can be used, and the IIB set up a special fund providing multilateral credit to developing countries. While the limitation on the ruble's role due to lack of multilateralism or convertibility are still serious, the establishment of these funds along with the expansion of credit facilities and the introduction of more realistic interest rates by the IBEC have offered the prospect of a wider use of the ruble in CEMA's foreign economic transactions.

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Soviet and Western Europe Begin to React

By this time the process of preparing CEMA for a broader external role was reaching its limits, however, because of its lack of a more formal mandate to represent its members. Yet the application of greater pressure on the East European countries to grant CEMA this authority could provoke an outcry from them and, in turn, the West, sufficient to damage Soviet detente objectives. Only when the holding of the CSCE was assured could the anti-bloc-to-bloc theme be safely played down and could attention be turned to the question of relations between the integrating halves of Europe and to persuading the East European states to grant CEMA authority to act on their behalf.

The East Europeans were well aware that the inhibitions the Soviets faced and the lack of an East Bloc policy toward the EC were temporary. Accordingly, in early 1972 at least three East European states took the opportunity to seek to be included in the generalized preferences extended by the Community to developing countries. While Poland and Bulgaria attempted this (unsuccessfully) through circuitous routes, Romania chose to make a political breakthrough by contacting the EC Council directly in what was the first official communication to the Community from a CEMA member-government. This bold Romanian effort to set a precedent for bilateral contacts with the EC had evidently been carefully timed, and the lack of sharp Soviet retaliation, despite indications of unhappiness, helped to confirm reports that a CEMA policy toward the EC had not yet been agreed upon.<sup>6</sup>

The Soviets evidently still felt that a clearly established policy was not yet essential, in part because there was as yet little sign that the EC was going to make an issue of its participation at the CSCE. As the preparatory talks approached, the Community was not seeking a role at the conference, much less demanding recognition as a prerequisite to participation by its members.\* If anything, the signals from the West were becoming more accommodating. Following

\*Initially, France and Germany were divided over the Community's role, the latter suggesting that the EC participate in an "appropriate" fashion and the former opposing this for fear that it would promote bloc-to-bloc relations. Despite the Commission's natural interest in assuming a role at the CSCE, it too was not enthusiastic about a bloc-to-bloc approach. While rejecting a proposal that a formal stand be taken against contacts between the EC and CEMA (the proposal was made by a special *ad hoc* group of political experts from EC and EC candidate members and was rejected in May 1972 at a meeting of their Foreign Minister),<sup>7</sup> the EC Political Committee recognized that these reservations and French opposition precluded any immediate demand for a formal Community role and adopted a wait-and-see attitude.

Brezhnev's remarks at the Trade Union Conference, Community, it was resolved, gave the opportunity to speak with one voice and to move toward political unity, but it was noted that the EC did not demand formal recognition, that it is an open community and not a bloc, and that the Treaty of Rome is flexible in providing for dealings with third countries. At the more tangible level, the West Germans suggested that a cooperative committee might be formed by the EC and CEMA, a prospect which offered the East the possibility of avoiding more formal recognition through direct contact with the EC Commission or the dispatch of an envoy to Brussels. These conciliatory gestures, while apparently designed to facilitate a change in Communist policy, probably had the opposite effect in the short run by reducing the pressure for change.

### III. A CEMA-EC LINK PROPOSED

Toward the end of 1972 the decision was taken in Moscow to broach the issue of a CEMA-EC link directly. Building on the earlier shifts in attitudes towards the EC, the broad rationale for such a link was provided by authoritative Soviet commentators, who found that, despite their great internal differences, CEMA and the EC had come to resemble each other externally as a consequence of the "internationalization and concentration" of production,<sup>8</sup> and that in the future there would probably not be "constant political confrontation" between them.<sup>9</sup> A Soviet statement on economic cooperation at the UN went further and made the new Soviet position more official by recognizing that organizations such as CEMA and the EC could in fact "under certain conditions" play a constructive role in developing international economic cooperation.<sup>10</sup> Such formulations provided a justification for pursuing a CEMA-EC link, but left obscure the "certain conditions" required for its establishment.

Some of these conditions were stated by Brezhnev at the 50th anniversary celebrations of the USSR in December 1972, in which he raised the question of CEMA-EC relations. In urging that a European program for economic cooperation be put on the agenda of the CSCE, he asserted that a basis for "businesslike" relations between CEMA and the EC was possible if the latter's members would refrain from "attempts to discriminate against the other side and would foster the development of natural bilateral links and pan-European cooperation." This call for bilateral links and general European cooperation implied a desire to channel carefully any bloc-to-bloc dealings, but the reference to businesslike relations was widely

taken as a signal that the Soviets had finally decided to  
RDR86T00608R0006001700027 to step up efforts  
to use CEMA in doing so.

#### A. Soviet Motivations

The timing of Brezhnev's remarks is significant in attempting to explain the complex of circumstances and motivations behind the Soviet decision. CEMA was, of course, by now better prepared: the expansion of its external role strengthened its claim to recognition, and with the Complex Program adopted, the discussions over integration within CEMA had become less acrimonious. With the CSCE now assured, the pretenses that it must be solely a conference of states and that pan-European economic cooperation must be strictly non-bloc could be allowed to fade.

The recent successes of the EC were probably also a spur to the Soviet initiative. The Paris summit of the leaders of Community members (in October 1972) had just accepted economic and political union as the long-range goal of the Community, and at the turn of the year the Community was to expand its membership and to introduce the first phase of its CCP toward the East. In addition, the Soviets were undoubtedly unhappy over the recent attempt by the EC and NATO to coordinate their positions on economic issues in preparation for the CSCE and were anxious to establish the terms of CEMA-EC contact before an unwelcome precedent was set by a favorable EC response to the pending Romanian request for preferences.

There were also changes under way in the attitudes of West European Communist Parties toward the Community which had implications for Soviet policies in Europe. The West European Communist Parties had been strongly encouraged by the Soviets to resist the EC, particularly in countries which were moving toward membership or toward a closer relationship with it (notably Austria and Finland). Any premature move toward the EC would have undercut these Soviet arguments and given a boost to EC authority and expansion at a time when a major objective was to minimize its role at the CSCE.

With the EC's enlargement and the holding of the conference assured, these restraints were removed at the same time that the approach of some West European Communist Parties to the EC was changing more rapidly, largely for domestic political reasons. This was especially true in France, where the decline in French Communist Party opposition to the EC was highlighted by the acceptance of a common program with the Socialists for the 1972 election which pledged

both parties to work within the Community and by progress toward entry of French Communists into the European Parliament. There they would join their Italian colleagues in the formation of a fledgling Communist parliamentary group, which offered the prospect of a rallying point for other EC Communist Parties—or factions thereof—that favored the transformation of the Community from within.

Whether sanctioned by the Soviets or not, these developments strengthened the Soviet need for new channels of contact in Western Europe. With their growing acceptance in their own countries, the West European Communist Parties had greater incentive to distance themselves further from actual or apparent Soviet tutelage. Among its other virtues, a CEMA-EC link could offer the opportunity for projecting Soviet influence within the Community at a time when the utility of direct party contacts appeared to be diminishing.

Yet, for all the apparent inducements which could now be found for the Soviets to seek a CEMA-EC link, the basic circumstances which had long inhibited any real movement still remained. There was little pressure being brought by the EC itself, and in fact the preparatory talks for the CSCE had gotten under way without any conditions being stipulated concerning the Community's role. Nor had any consensus emerged within the USSR over the future prospects of the EC. Above all, the East Europeans had still not been persuaded to grant CEMA authority to deal with the EC in their name.

The Soviets evidently had determined that a greater CEMA role in controlling Eastern Europe's relations with the EC was of such significance to their plans for insulating Eastern Europe from Western ideas and practices that they could not wait for East European approval of an increase in CEMA's authority or a definitive assessment of the EC's future. Rather, they decided to angle for establishment of a CEMA-EC link and exploit this to help force East European acquiescence to tighter control of East-West relations.

Circumstantial evidence supports this interpretation of Soviet motivations, for the decision to broach publicly the question of a CEMA-EC link coincided with a conservative turn in Soviet attitudes toward institutional modifications designed to facilitate East-West economic relations. Earlier in 1972, concomitant with the monetary upheavals in the West, there had been a number of signs of a growing Soviet interest in the possibilities of a ruble bloc developing within a new polycentric monetary system as the role of the dollar

the discussions over this new monetary system. The idea of a European conference on monetary and financial issues had even been raised by the Soviet representative to the Economic Commission for Europe.<sup>11</sup> These ideas of becoming involved with Western monetary institutions seem to have disappeared after mid-year, shortly before the prospect of a CEMA-EC link was raised and about the time that *Kommunist* was rejecting any turn of socialist integration toward market and monetary reforms as one of the "fantasies of bourgeois propaganda."<sup>12</sup> It had evidently now been agreed that if East-West economic relations were to be expanded and a CEMA-EC tie established, there must be no modification of economic practices within CEMA and a minimum of exposure of its members to changing economic institutions in the West.

#### IV. FOCUS ON THE FORM OF CEMA-EC TIES

Brezhnev's bid for a CEMA-EC link marked a major change in the USSR's European priorities. While the transition had been gradual and was an integral part of the evolving broader Soviet concept of detente, the longstanding policy of containing and counteracting the EC on all fronts and at all costs had given way to the growing need for controlling East European relations with the West during detente. This shift transformed the key question from that of Soviet acceptance of the EC's legitimacy to that of the form of contacts with the Community to be developed by the CEMA states.

##### A. Differing Perspectives Within CEMA

For the Soviets this question of how to make contact with the Community has been more difficult than it might appear. To outside observers the sharp distinction drawn by both East and West between an approach to the Community and an approach to its Commission has often appeared more an excuse for delay or a cover for indecision than a matter of principle. Yet the Commission is the EC locus of supranational authority and aspirations, which have been not only the *bête noire* of Soviet propaganda, particularly when contrasting CEMA and the EC, but also the basis of the fear that political and ultimately military supranationalism could evolve from West European economic integration. It would therefore be a major political and ideological hurdle for the Soviets to accept the Commission as CEMA's negotiating partner, rather than to deal with the Community through the sort of *ad hoc* joint committee that accommodating Western spokesmen had suggested might be feasible.

This was also a particularly difficult question for the East Europeans to face. While they had long sought better economic relations with the EC and its members, few were willing to accept a significant enlargement of CEMA's authority over the conduct of East-West economic relations as the price of improved economic bargaining power against the Community. Yet, with the EC's introduction of the CCP getting under way, the East Europeans were faced with the unwelcome choice of granting CEMA some countervailing role or having each CEMA country deal with the EC Commission bilaterally—a circumstance to which the Soviets not only objected strongly for political reasons, but in which, the East Europeans feared, Soviet economic power and natural resources would give the USSR a commanding advantage. Neither alternative being welcome, for the East European states it became in large part a question of weighing a strengthening of CEMA against their ability to compete economically and politically for EC markets and credits on their own. Most opted for the latter, coming to welcome CEMA-EC contact only insofar as it enhances detente, opens up contacts, and spurs the interest of EC members in developing East-West economic relations bilaterally.

As a result, the particular spheres of cooperation to be chosen by CEMA and the EC became a matter on which views differed within CEMA. With regard to relations in the commercial sphere, the EC's bloc approach via the CCP has made the East Europeans especially wary. Beyond these, there are some spheres of potential cooperation which offer the prospect of a significant enhancement of Soviet control through CEMA if the EC states should be willing to negotiate on them through the Community. These include the spheres of investment, economic cooperation (beyond merely commercial arrangements), and monetary and financial relations. Some possible spheres of cooperation, however, may offer less potential for increasing Soviet control than for opening up contacts which could ultimately undermine Bloc cohesion by spreading Western attitudes and practices. Such prosaic things as exchanges of statistics or technical documentation necessitate travel and perhaps training in the West; standardization of documentation, quality controls, or other regulations encourages acceptance of the most advanced, i.e., generally Western, practices; and cooperation in certain areas such as environment or health, can probably help to promote the movement of people and ideas in a framework in which the Soviets would have trouble in maintaining close control. Because of these objective conditions, it

was to prove very difficult to agree, first within CEMA and then between CEMA and the EC, on the spheres of possible CEMA-EC cooperation which should be explored and in which the granting of bloc competences should be considered.

#### B. East European Resistance Emerges

Although public reactions in Eastern Europe to Brezhnev's remarks in December 1972 endorsing businesslike relations between CEMA and the Community were muted to nonexistent, in the absence of any prior consensus on the form and scope of CEMA-EC ties this issue was quickly joined within CEMA. When, at a meeting of Bloc foreign ministers in January 1973, Brezhnev called for negotiations between the two economic groups in the interest of increasing trade and economic cooperation, he reportedly was met with arguments by the foreign ministers of most of the East European members—Hungary, Romania, Poland, and significantly, East Germany—that this would limit their individual arrangements with the EC.<sup>13</sup> It was subsequently acknowledged by an official in the Soviet Ministry of Foreign Affairs that in his December statement Brezhnev had spoken only for the Soviet Union, his speech having been preceded by merely an "exchange of views" with the other CEMA countries.<sup>14</sup>

This pattern of resistance in Eastern Europe to bloc-to-bloc dealings which impinged on or constricted bilateral relations with the Community was to persist. The same East European countries which voiced these initial reservations (and, as noted above, had earlier resisted integration through tighter bloc-wide planning) were to continue to offer active resistance to any supranational role for CEMA.

Their reasons for this resistance have not been entirely identical. For Hungary and Poland, political and economic considerations have perhaps weighed about equally. In addition to the desire to maintain control over their external relations, these two countries have a major stake in the bilateral economic ties, including cooperation arrangements, which they have developed with EC members, notably West Germany. Although it shares these economic goals, Romania has attempted to use relations with the EC and its members primarily as a means of furthering its political independence from the USSR. East Germany has been in a quite different position. It has been less concerned with the issue of political sovereignty than with preserving its access to Community markets via the interzonal trade arrangement with West Germany. This has become in-

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creasingly difficult as the original rationale for this arrangement—the unness of Germany—has diminished with growing Western acceptance of the East German state. Thus, none of these countries have wished to see their relations with the EC and its members transformed and restricted by a common bloc approach. Of the remaining East European CEMA members, while the lack of participation in resisting a strengthened CEMA by Czechoslovakia has appeared quite out of step with the country's real needs, it, like Bulgaria, has been able to benefit from the resistance of others in Eastern Europe without jeopardizing its political standing in Moscow.

### C. The Soviets Push for a CEMA-EC Link

The continuing absence of agreement within CEMA—and very likely within the USSR itself—on how to deal with the EC appeared to place Soviet diplomacy under considerable restraints following Brezhnev's proposal for CEMA-EC ties. There was no immediate high-level follow-up, but several months later low-level Soviet diplomats initiated conversations with their Western counterparts in which an initial agreement was suggested for cooperation in such areas as transportation, fuel, and power.<sup>16</sup> By focusing on the sort of pan-European projects which the Soviets had been advocating for several years and which had already gained some support in Eastern and Western Europe, this approach made the concept of CEMA-EC relations appear relatively innocuous—as merely a by-product of the broader movement toward detente, and could be taken as a reflection of sensitivity to East European reservations.

This cautious opening of the question of the form of CEMA-EC relations was paralleled by a very active Soviet effort to negotiate long-term bilateral economic cooperation agreements with EC members.\* These agreements evidently were designed not only to help minimize the impact of any CCP, but also to placate those within the USSR with reservations about coming to terms with the Community. By establishing bilateral economic relations more firmly and setting precedents for the future development of such relations, these agreements reduced the economic and political risks of developing ties with the Community.

In the late spring of 1973, following the April Central Committee plenum, these initial signs of

\*A ten-year cooperation agreement was quickly prepared for signing during Brezhnev's visit to Bonn in May 1973, at which time similar agreements were being urged on Italy, Britain, and Belgium. A new agreement with France was signed in July 1973, which supplemented the ten-year agreement of 1971.

Soviet diplomatic caution gave way rather abruptly to a major drive to push through the establishment of a CEMA-EC link. Despite strong East European reservations, again including those of East Germany,<sup>17</sup> a mandate was obtained for CEMA Secretary Fadeyev to open an informal dialogue with the EC on the formation of a joint committee to discuss the possibilities for CEMA-EC cooperation.<sup>18</sup> The Soviets then stepped up the pressure both for bloc-wide policy coordination and for an expansion of the scope of the CEMA-EC relations.<sup>19</sup>ip. Soviet officials, including Kosygin and Gromyko, indicated that much more was envisioned for the CEMA-EC link than had been suggested previously: in their discussions with EC representatives they proposed that CEMA-EC relations encompass tariffs, quotas, the monetary sphere and investment codes.<sup>19</sup> The inclusion of monetary and investment relations indicated that the Soviets were thinking in much more ambitious terms than was necessary to counter the Community's CCP, and suggested that they were working up to the idea of giving the CEMA banks a major role in the monitoring and control of East-West economic relations.

While the mounting economic difficulties in the West and renewed signs of EC weaknesses may have provided an impulse to the Soviet initiative, these considerations do not appear to account for Soviet heavy-handedness and seeming haste. The immediate causes probably related more to negative, than to positive, developments in the West (from the perspective of the Soviets), for they had just received two clear signals that their long-standing, much cultivated French connection in the Community was breaking down. The EC had granted the Romanian request for preferences, which along with the Community's new, more comprehensive agreement with Yugoslavia, set a precedent for bilateral dealings with the Community by CEMA members unwelcome to the Soviets. In addition, on the eve of the CSCE the EC was finally showing signs of taking a stand on participation, declaring that trade aspects of future negotiations at the CSCE would fall within the competence of the Community and would not be left to member governments.\* Both of these EC moves were made possible by the dropping of French objections, and besides providing the Soviets with some disturbing early signs of an untoward turn in French foreign policy, by compounding their concern over controlling East

\*The question of the Commission's role was left open. The lack of objection from the East was taken as a step towards "normalization" of the EC's representation at the conference and towards Communist recognition of the Community.<sup>19</sup>

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European relations with the Community, undoubtedly helped prompt the Soviets' more urgent quest for a CEMA-EC link.

#### D. Western Europe Joins the Resistance

Although such a long-awaited and seemingly historic decision as an approach to the EC might be expected to have been thoroughly prepared and carefully orchestrated, this was not the case. In addition to—and perhaps because of—the lack of consensus within CEMA, the decision was at first kept secret, and the initial attempt to communicate it to the West discreetly was bungled, much to Soviet chagrin.\* By attempting to control the diplomatic action completely, the Soviets managed to create the strong impression in the West that this was a Soviet, not a CEMA, initiative and to increase East European fears of ultimate Soviet intentions.

The implications of the broadened Soviet concept of CEMA-EC ties for the East Europeans were in fact potentially immense, and it seems likely that some word of what was being proposed got back to them and contributed to their growing disquiet. Although they reportedly were generally satisfied that Fadeyev did not exceed his mandate in his initial approach to the EC, East European reservations were beginning to be made known to the West, through both diplomatic contacts and the public media. The essential argument was that, while CEMA-EC contact was acceptable in principle, it must not be institutionalized to the point of displacing or limiting of bilateral contact. Again the Romanians were the most active in presenting their objections, stressing that CEMA had no authority to represent its members.<sup>20</sup> But in a remarkable public statement Hungarian Party leader Kadar, while welcoming CEMA-EC contacts which facilitated an expansion of economic relations among members, maintained that "there need not be economic relations between CEMA and the EC in their capacities as organizations."<sup>21</sup> The idea was to restrict contacts to multilateral discussions of problems, denying either grouping anything resembling a negotiating mandate for its members.

The impact on EC members of these growing East European reservations over the Soviet initiatives appears to have been significant. Up to this time their

\*The news of this agreement was finally given to Luxembourg Foreign Minister Thorn by Kosygin during his visit to Moscow at the end of July, following an abortive effort by Gromyko to get the message through to Danish Foreign Minister Anderson at the CSCE in Helsinki earlier in the month.

attitudes had become increasingly wary, but remained mixed; even after the Soviets revealed that Fadeyev was to approach the Community some EC officials still felt that a CEMA-EC relationship would help weaken Soviet domination over Eastern Europe.<sup>22</sup> Following representations from the Romanians and other East Europeans arguing for the maintenance of bilateral relations, however, the Italians came to view the Fadeyev Initiative as an effort by the Soviets to block dealings by individual East European countries with the Community.<sup>23</sup> Similarly, the British, French, and Dutch were reportedly dubious of bloc-to-bloc approach;<sup>24</sup> and even the Germans, who initially had pressed hardest for a forthcoming response by the EC to the CEMA bid, acknowledged the preferability of the bilateral approach in order to enhance East European maneuverability and to dilute Soviet influence.<sup>25</sup>

The surge of East European concern helped to disabuse those in the Community who were inclined to mistake Soviet interests for CEMA interests and also to focus attention on what kinds of CEMA-EC ties could prevent the EC from becoming the unwitting accomplice to Soviet designs on Eastern Europe. Accordingly, the Community's reaction was very guarded, no substantive response being offered to Fadeyev's approach. After considerable reservations about it were expressed in the European Parliament,<sup>26</sup> the EC Council took the position that CEMA must approach the Commission, thus effectively rejecting CEMA's proposal that formation of a joint committee constitute the first step. This reaction led to a relatively long hiatus on the whole question of CEMA-EC ties.

#### V. THE SOVIETS LOSE THE INITIATIVE

Whatever the strength or combination of immediate causes, the Soviets clumsily overplayed their hand in their bid to the EC in the summer of 1973 and found their plans for the conduct of East-West economic relations in jeopardy. The mounting East and West European reservations about Soviet intentions promised at best a relatively weak CEMA-EC link which would offer the USSR only limited potential for controlling East-West economic relations. Yet the Community's insistence that CEMA approach the Commission sharply raised the political cost of even this weak link. What the Soviets probably feared most from detente had begun to happen: Eastern and Western Europe had found common ground on which to resist Soviet designs for the future conduct of East-West relations.

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### A. Soviet Troubles Mount

By early 1974 the Soviets' position had deteriorated further, as the EC stance hardened. While the impasse lingered on, the Community, although still procrastinating over the content of the CCP toward the East, strengthened its resolve that CEMA must take the initiative by approaching the Commission. The latter in turn was emboldened to argue in a report to the EC Council that CEMA was in fact ill-suited for my dealings with the Community, having no clearly defined jurisdiction and very limited experience in external relations. While leaving the door open to a CEMA approach, the Commission thus served notice that it was not prepared to treat CEMA as an equal. Furthermore, by maintaining that CEMA was incapable of leading broad trade negotiations but might carry out only a "specific activity in that field if political interests dictated it," the Commission indicated that it was not going to accept CEMA as the spokesman for its East European members unless they clearly approved and defined the spheres for negotiation beforehand.<sup>27</sup> Moreover, with new trade agreements between the members of CEMA and the EC prohibited from the beginning of 1973 by the CCP, bilateral economic cooperation agreements between these countries began to assume increasing commercial significance. Ironically for the USSR, which had promoted these cooperation agreements, this served to lessen the urgency of, and to complicate the formulation of, a common, positive Community response to the CEMA bid.

The Soviets appeared unable or unwilling to adjust quickly to their new predicament. They refused to approach the Commission, and although they stepped up their research into the possibilities of CEMA-EC cooperation, and leading officials, including Kosygin and Gromyko, voiced impatience with the continuing delay,<sup>28</sup> these outward signs of continuity could not disguise evidence of reassessment in Moscow. There was no sign of a new Soviet initiative for six months, a period which coincided with evidence that a hard look at detente policy was being undertaken by the Soviet leadership.\* This circumstance strongly suggested that problems with the CEMA-EC bid, particularly the East and West European reactions to it, were a significant factor in this scrutiny.

\*There was a number of indications that by late 1973 Soviet policy toward the West was under review; see "The Prospects for European Unity . . .," *op. cit.*, pages 14-15.

### B. A Second Bid for a CEMA-EC Link

Last spring the Soviets began to show an interest in breaking the impasse over CEMA-EC relations, and as the annual CEMA Council meeting approached in June there were renewed signs of Soviet pressure on Eastern Europe to grant CEMA authority to deal with the Community. Following an upsurge in Romanian commentaries upholding the right of CEMA members to conduct their own external relations, highlighted by Ceausescu's rejection of the idea of "exchange through the mediation of CEMA,"<sup>29</sup> it was predicted by the Czechoslovak Party daily that at the Council session provision would be made for CEMA to function as a "fully legal body in international law" in order for it to deal with other international organizations.<sup>30</sup> While this was evidently agreed upon in principle through a new statutory provision explicitly "confirming" the organization's right to conclude international agreements,<sup>31</sup> there is no evidence that CEMA was actually vested with any greater authority to negotiate such agreements on its members' behalf. Despite this apparent setback to Soviet hopes for strengthening CEMA, signs quickly appeared of Soviet willingness to accede to EC demands by moving toward contact with the Commission—signs which culminated in the invitation in September to Commission President Ortoli to come to Moscow to discuss the possibilities for CEMA-EC cooperation.

By "giving in" to EC demands that CEMA approach the Commission, the Soviets evidently hoped at last to have acquired the lever with which to force Eastern Europe to grant the CEMA Secretariat some degree of supranational authority. The essential idea appears to have been to concede a role to the Commission and then to insist, despite anticipated West European, as well as East European, resistance, that Eastern Europe agree to closer coordination of foreign economic policy through CEMA in order that a meaningful dialogue over expanded economic relations with the EC could begin. The basis for Soviet tactics here appears to have been the expectation that the establishment of CEMA relations with the EC Commission could be linked to the introduction of the second phase of the CCP in January 1975, in which the Commission was expected to assume the role of Community negotiator.

### C. A New Impasse Emerges

Things have not worked out this way. By the time it was finally made, the move to deal with the Commission was received with little enthusiasm by the Community, despite the fact that no mention was made of

such potentially contentious issues in Eastern Europe as the monetary and investment spheres. Although the EC Council approved the opening of exploratory contacts with CEMA at lower levels, it did not do so before soliciting East European views concerning both the invitation to Ortoli and CEMA-EC relations in general<sup>32</sup>—a reflection of the impact of East European reservations expressed earlier. That the East European reaction was still very wary, and that this was conveyed to the EC as suggested by the fact that while striving to introduce the CCP in principle by January 1975, the EC did not give the Soviets a new opportunity to push through a countervailing role for CEMA. The Community refrained from threatening economic sanctions against those who did not acknowledge the CCP,<sup>33</sup> and postponed any real response to the CEMA invitation to the Commission President.

In the face of this Community effort effectively to separate introduction of the CCP from the question of a CEMA-EC link, the Soviet stance hardened. On at least one occasion last fall the Soviets threatened a breakdown in bilateral economic relations should the Community insist on introducing the CCP through the Commission.<sup>34</sup> They made crude attempts to negotiate extensions of bilateral trade agreements with EC members, particularly France and Germany—which were resisted and effectively sidetracked into negotiations over relatively innocuous supplementary cooperation agreements. The Soviets, in addition, refused to accept the proposed model agreement offered them by the Commission as a first step toward introduction of the CCP.

Most of the East Europeans joined in this resistance to the introduction of the CCP. Except for Romania, which had already established a relationship with the Commission when it received trade preferences, CEMA's East European members also refused to accept this model agreement. This rejection undoubtedly received Soviet encouragement, but with the prospect that their economic access to the Community would be preserved intact for the near future, the East Europeans were probably not reluctant to join the Soviets in strongly resisting introduction of the CCP.

<sup>32</sup>Formally, most bilateral trade agreements between CEMA countries and the EC member states expired in January 1975 and should in theory have been replaced by new agreements negotiated with the Commission. There was never any expectation in Community circles, however, that existing trade arrangements would be repudiated or that any EC level accords would be reached by the first of the year. A one-year extension of a few bilateral agreements has been permitted, but in most cases trade agreements have expired and the so-called autonomous Community policy, which in effect maintains the *status quo* in trade relations, is being applied.

Such resistance could only reinforce Community wariness of significant CEMA-EC contacts and underlie Soviet arguments for strengthening CEMA's authority to enter into them. Recent evidence of East European concern effectively makes this point: in discussing their EC problems with [redacted]

[redacted] in late December, the Hungarians stressed their desire for greater future autonomy in trade and expressed their concern that EC policies (that is, introduction of the CCP) would force the CEMA states into a common position in trading with the Community. They urged instead "at most" a CEMA-EC umbrella agreement, under which CEMA and EC members could continue to conduct trade bilaterally.<sup>35</sup> The expression of these Hungarian views, which were promptly relayed [redacted] to the NATO ambassadors in Budapest, reflects not only the depth of East European concern which still exists, but a willingness to risk Soviet ire by lobbying against Western policies seen as serving Soviet interests and arguing in favor of arrangements which will minimize Soviet control over East-West economic relations.

Soviet tactics in resisting the CCP undoubtedly reflected a large measure of frustration over the continued EC unwillingness to recognize CEMA as an equal. This non-recognition presents a serious obstacle to any renewed attempt to enhance CEMA's role as spokesman for its members. By helping to forestall strengthening of Soviet control over Eastern Europe it evidently reinforced Soviet reluctance to make, or to permit the East Europeans to make, any move toward bilateral talks with the Commission concerning the CCP.

#### D. An Abortive First Official Meeting

As this new impasse emerged and the prospects for exploiting the EC's introduction of the CCP to strengthen control over CEMA faded, the Soviets appeared to become less enthusiastic about pursuing CEMA-EC relations at the substantive level. Shortly before the first formal meeting of CEMA and EC representatives in early February, a leading Soviet economist expressed very modest hopes for its results and envisioned merely an exchange of information and some joint research emerging during the first stage of CEMA-EC cooperation.<sup>36</sup> This suggested that the Soviets were becoming more cautious about the extent of CEMA-EC contact, and that they might again be reassessing their approach to the Community through CEMA. There was in fact now growing concern within the Commission that the proposed meeting between Fadeyev and Ortoli was valued for "political and optical" reasons, i.e., to give recognition to CEMA,

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rather than to achieve substantive progress,<sup>36</sup>—a view probably derived in part from the treatment in Soviet propaganda of CEMA's achievement of observer status at the UN last fall.

The trip to Moscow of an EC delegation for the initial meeting confirmed that CEMA was not prepared to discuss substantive issues. The meeting went very badly, with no real progress on any issue being achieved and no communique being agreed upon. The CEMA representatives were characterized as stubborn, secretive, and poorly prepared to discuss anything of substance, their only interest being in arranging a visit by Commission President Ortoli to Moscow.<sup>37</sup>

The CEMA position at this first meeting appears to have reflected an impasse within the organization. Neither the East nor the West Europeans of course were willing to take up prospective spheres of cooperation which could appreciably strengthen CEMA's hand in East European foreign economic policy. The EC reportedly wanted to talk, rather, about things like standardization and environmental protection, and perhaps eventually about statistical exchange and energy policies. But even on these topics the CEMA representatives were unwilling to open negotiations. This suggests that because they were unable to strengthen CEMA's authority over Eastern Europe, the Soviets had refused to sanction any negotiations which would provide opportunities for contact and cooperation to develop between CEMA and EC members.

The Community representatives apparently made things more difficult for the CEMA delegation by forcing the issue of their respective organizations' competence. The EC delegation insisted that mutual recognition of each other's representational powers—meaning, on CEMA's part, recognition of the Commission's authority to introduce the CCP—was a prerequisite to progress toward cooperation. This, in turn, it was argued, was essential before Ortoli would have anything to talk about in Moscow. If maintained, this EC stance means that the Commission's right to represent Community members in negotiating new trade agreements must be accepted by CEMA before any further real progress on CEMA-EC contact can be made and the Ortoli visit brought off. Community disappointment in this first meeting has in fact led to increased suspicions of Soviet intentions and of the utility of a trip to Moscow by Ortoli.

By taking this position, the EC has confronted the Soviets with tough decisions. Unless the Soviets reverse their recent hard stand on the CCP by acknowledging

the Commission's authority and are prepared to negotiate on substantive issues in preparation for an Ortoli-Fadeyev meeting, continued stalemate appears likely. For the Soviets now to take these steps would appear to require either a major breakthrough on the question of increasing CEMA's authority or Soviet reexamination of the role of CEMA and of CEMA-EC contact in future East-West relations.

Following the meeting, nevertheless, the Soviets have appeared optimistic about future CEMA-EC contacts. Ignoring reality, they have publicly interpreted the meeting as a success, and a leading *Pravda* commentator, Yury Zhukov, has even predicted a trip by Ortoli to Moscow "within the next few months."<sup>38</sup> The construction of this facade of optimism helps to keep Soviet options open: if a prolonged impasse develops and Ortoli cannot be persuaded to come to Moscow the Community can be blamed for interrupting a promising dialogue, yet at the same time, this approach can serve to cover or minimize any concessions made to get him there. It also reflects the Soviet attitude that meetings, visits and declarations are worthwhile in their own right, because even if they do not accomplish anything of substance, they at least prevent backsliding and thereby help to make detente "irreversible." Just as for Western participants at the CSCE, in the near term these Soviet tactics will provide a severe test for the EC and its members of their commitment to a continuing dialogue, their ability to resist unilateral concessions, and, increasingly, their patience.

## VI. PROSPECTS

It now appears that CEMA-EC relations will develop along more modest lines than some hoped, and others feared, a couple of years ago, and that their establishment is unlikely to precipitate any significant changes in the conduct of East-West economic or political affairs in the foreseeable future. Eastern Europe will generally be happy if CEMA-EC relations remain *pro-forma*, more a by-product than a shaper of East-West economic relations. The element of tacit collaboration in resisting Soviet designs which has evolved between the Community and East European members of CEMA should continue to provide a formidable barrier to any breakthrough on the closely interrelated questions of CEMA-EC ties and a more authoritative external role for CEMA.

Although willing to see CEMA-EC contacts develop cautiously, the EC and its members are not likely to be more forthcoming as long as East European reser-

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vations remain undiminished and CEMA's members resist so adamantly the application of the CCP. Recent experience argues that the East Europeans will continue to find a receptive audience for their complaints among EC members should the Soviets step up pressure upon them to grant CEMA a significant increase in control over their external policies, and that the Community is likely to prove unreceptive to the Soviets' more ambitious ideas concerning CEMA-EC relations in such spheres as monetary and investment policy should they be revived. Now preoccupied with much more pressing problems than the CCP, the Community in fact appears relieved to have achieved its nominal introduction with a minimum of fanfare or squabbling among EC members and, while insisting on the Commission's right to introduce the CCP, to be less inclined to stress its authority in bloc-to-bloc dealings.

Even if EC members eventually agree to the introduction of a more comprehensive CCP toward the East than one would presently anticipate, this will provide little economic impetus for the development of an equivalent common policy by CEMA. The institutions and trading practices in the two halves of Europe remain so different that—as GATT experience with East European applicants has shown—there is little real basis for negotiation over mutual concessions concerning trade barriers. Until operable tariffs or other means of trade control less subject to manipulation by central planners are introduced by CEMA, it will remain very difficult for it to offer the Community an effective *quid pro quo* for commercial concessions. The EC Commission, therefore, will in all probability apply the CCP essentially unilaterally for the foreseeable future.

A major intangible at the moment, however, is whether the rapid shift in the economic balance between the USSR and Eastern Europe over the past year or so will be exploited effectively by the Soviets to break East European resistance to an enhancement of CEMA's authority and to a bloc-to-bloc approach to the Community. The Soviets are the primary supplier of East European raw material and fuel requirements, notably oil. Until this year, changes in world market prices had relatively little impact on Soviet-East European trade because of long-term contractual arrangements and the way prices have been set in CEMA. But prices in Soviet-East European trade are now rising, and closer Soviet-East European economic ties can be anticipated, which will be reflected in greater East European debt to, investment in, and trade and cooperation with, the USSR. Because of

their great stake in East European stability, the Soviets will be very reluctant to provoke cries of exploitation or to accept the political risks which would accompany economic hardship in Eastern Europe. But the present situation does greatly enhance Soviet economic bargaining power which can be turned to political ends if Moscow chooses to do so. At a minimum, the recent strengthening of the Soviets' economic position has probably reinforced their feeling that in the future Bloc economic policy can be coordinated more effectively behind the scenes at state and, especially, at Party levels—even without a more direct role for CEMA.

The Soviet decision on how to pursue the CEMA-EC link will of course turn on much more than tactical considerations of relative economic strength within CEMA. The idea of such a link was put forward in 1972. If at that time the momentum toward detente was greater than at present, it was in part because expectations of progress toward a new economic order in Europe and expanded East-West economic relations were stronger. The Soviet willingness to accept the Community as an economic bloc in return for acknowledgement of CEMA's authority in Eastern Europe could be seen as the economic counterpart to the political settlement then being sought in Central Europe.

For the Soviets the situation has now changed markedly. The threat of the Community has diminished, at least for the near future, as a result of Western political and economic disarray, and the broader Soviet political objectives in Central Europe have been largely achieved. In assessing their approach to the EC the Soviets face much the same question as on Basket III at the CSCE (freedom of movement for individuals and ideas) and on emigration: are the potential gains, which are now largely economic, worth the political risks? In these circumstances, a good case can now be made in Moscow for moving very cautiously in developing a CEMA-EC link which in the absence of greater authority for CEMA may offer less prospect for increasing Soviet control over Eastern Europe than for allowing East and West Europeans to develop contacts undermining that control.

Frustrated in their efforts to exploit the establishment of CEMA-EC ties and the introduction of the CCP to strengthen CEMA, the Soviets are likely to be happy to see these ties develop gradually, while reaping maximum political and propaganda advantage from future contacts. They probably will also continue to resist the introduction of the CCP, seeking instead to

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steer pressing issues of commercial policy into bilateral or quasi-official channels. This approach would now appear to offer significant advantages to the Soviets, because to the extent that they continue to push for a Bloc approach to the expansion of East-West economic relations, in the absence of firmly established control by CEMA the East European and EC states will both have greater incentive and opportunity to steer negotiations toward international forums in which the roles of CEMA and the USSR can be minimized. By advocating a separation of the problem of expanding East-West economic relations into its components—trade barriers, monetary arrangements, credit policies, etc.—the roles of already involved organizations, such as GATT and the Economic Commission for Europe (ECE), could be enhanced and roles for other international organizations, such as the IMF and the OECD, could eventually be found. Indications of just such reasoning have recently appeared in Hungary, where GATT has been cited as the preferred forum for trade negotiations with the EC,<sup>39</sup> and in Romania, an IMF member, which recently indicated its interest in achieving observer status in the OECD.<sup>40</sup> If the Community can maintain the co-ordinated approach to the East developed for the CSCE

and now gaining credence through the introduction of the CCP, and can carefully nurture its incipient coordination of foreign economic policy with Eastern Europe, it might be possible to begin to shift negotiations to these international forums. By drawing the CEMA states into the international economic system, this could eventually help make it possible for discussions to focus on more fundamental economic barriers to an expansion of East-West economic relations, such as bilateralism and non-convertibility.

All of this remains anathema to present Soviet leaders. Their rather abrupt rejection of any involvement in international monetary negotiations, noted at the time the approach to the EC was first being prepared, and their continued reluctance to think along such lines reflect an awareness of the opportunities this involvement would provide for subtle subversion of Soviet control and a revival of reformist sentiment in Eastern Europe. The Soviets have consistently shown their unwillingness to risk either development in formulating plans for detente. This helps explain why their post-CSCE concept of economic relations in Europe remains so undeveloped, failing so far to proceed beyond the notion of a few grandiose pan-European projects and to offer any tangible institutional innovations. Yet, until there is a lessening of Soviet rigidity on the form of future East-West economic relations and on the extent of bloc control necessary over them, it is unlikely that either Eastern Europe or Community members will become more willing to see the CEMA-EC link now finally being established assume a significant role in the shaping of these relations.

\*Recent signs of Soviet interest in participating in some fashion at the upcoming, GATT-sponsored round of multilateral trade negotiations may in part reflect a desire to monitor the East European's activities there—especially their contacts with the Community. The ECE, which has long been involved in promoting East-West economic relations, is deferring an examination of its current programs pending the outcome of the CSCE, which it anticipates—perhaps too optimistically—will help to shape its future role.<sup>41</sup>

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<sup>1</sup> *Pravda*, 8 June 1969.<sup>2</sup> PAP, from Warsaw, 2 December 1971.<sup>3</sup> "The Prospects for European Unity . . .," *op. cit.*<sup>4</sup> *Pravda*, 18 May 1973; *Izvestiya*, 19 May 1973.<sup>5</sup> *Survey of CEMA Activities in 1973*, Moscow 1973.<sup>6</sup> Jonathan Steele, *The Guardian*, 28 March 1972; and Neil Ascherson, *The Observer*, 9 April 1972. In a press conference in Cadre on 6 April 1972, Ceausescu said that he was "not aware" of any decision concerning links with the EC.<sup>7</sup> RFE Special/Dybvick, Luxembourg, 27 May 1972. 25X1A2g<sup>8</sup> N. Inozemtsev, Candidate CC member and Director of the Moscow Institute of World Economics and International Relations, at the October International Conference in Varna (Bulgaria); extracts from his report reprinted in *Le Monde*, 18 November 1972.<sup>9</sup> Gherman Gvishiani, Vice President of the State Committee for Science and Technology in the French Quarterly *Preuves*.

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<sup>10</sup> TASS, 26 April 1972.<sup>11</sup> O. Chukunov, No. 13, September 1972.<sup>12</sup> East European sources cited by Michael Parks in the *Baltimore Sun*, 17 January 1973.

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<sup>13</sup> Soviet economic officers in Belgrade, [REDACTED] 9 April 1973, LOU. 25X1A2g

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<sup>14</sup> At the 27th CEMA Council session in June 1973.

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<sup>15</sup> EC Commission Deputy Secretary General Klaus Meyer in remarks to newsmen, RFE Special/Dybvick, Brussels, 8 June 1973; *The Financial Times*, 9 June 1973; and *The Economist*, 15 June 1973.

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<sup>21</sup> Statement to Finnish Radio and TV at the end of September, quoted in RFE SR/35, 9 October 1973.<sup>22</sup> [REDACTED] CONFIDENTIAL. 25X1A2g<sup>23</sup> [REDACTED] CONFIDENTIAL. 25X1A2g<sup>24</sup> [REDACTED], CONFIDENTIAL; and [REDACTED], LOU. 25X1A2g<sup>25</sup> [REDACTED] 26 September 1973, CONFIDENTIAL; and [REDACTED] October 1973, CONFIDENTIAL.<sup>26</sup> [REDACTED] 24 September 1973, UNCLASSIFIED. 25X1A2g<sup>27</sup> RFE Special/Vonduyke, Brussels, 1 March 1974. 25X1A2g<sup>28</sup> [REDACTED] 25 November 1973, CONFIDENTIAL; February 1974, CONFIDENTIAL; [REDACTED] UNCLASSIFIED.<sup>29</sup> [REDACTED] 16 May 1974, UNCLASSIFIED. 25X1A2g<sup>30</sup> *Rude Pravo* editorial, 18 June 1974. 25X1A2g<sup>31</sup> Jeri Hildek in *Zivot Strany*, No. 16, August 1974, and *Rude Pravo*, 19 December 1974.<sup>32</sup> [REDACTED] 30 September 1974, CONFIDENTIAL. 25X1A2g<sup>33</sup> [REDACTED] 22 October 1974, LOU. 25X1A2g<sup>34</sup> [REDACTED] 20 December 1974, CONFIDENTIAL. 25X1A2g<sup>35</sup> [REDACTED] 16 January 1975, CONFIDENTIAL. 25X1A2g<sup>36</sup> [REDACTED] 22 January 1975, CONFIDENTIAL. 25X1A2g<sup>37</sup> [REDACTED] 7 February 1975, CONFIDENTIAL. 25X1A2g<sup>38</sup> Yury Zhukov, leading *Pravda* commentator, interview in *L'Espresso*, Rome, 23 February 1975.<sup>39</sup> [REDACTED] 15 November 1974, LOU; Rezsö Nyers, *Kozgasdasagi Szemle*, September 1974. 25X1A2g<sup>40</sup> [REDACTED] 24 January 1975, CONFIDENTIAL. 25X1A2g<sup>41</sup> [REDACTED] 6 February 1975, LOU. 25X1A2g